

VZCZCXRO3419
PP RUEHROV
DE RUEHTV #1719/01 2151431
ZNY SSSSS ZZH
P 031431Z AUG 09
FM AMEMBASSY TEL AVIV
TO RUEHC/SECSTATE WASHDC PRIORITY 2891
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
INFO RUEHXX/ARAB ISRAELI COLLECTIVE PRIORITY
RHEHNSC/NSC WASHDC PRIORITY

S E C R E T SECTION 01 OF 03 TEL AVIV 001719

SIPDIS

NSC FOR PREM KUMAR, TREASURY FOR DAN MOGER, NEA/IPA FOR
THOMAS GOLDBERGER

E.O. 12958: DECL: 08/03/2019
TAGS: [EAID](#) [EFIN](#) [KTFN](#) [KPAL](#) [IS](#)
SUBJECT: DAS GLASER'S JULY 29-30 VISIT TO ISRAEL

REF: A. TEL AVIV 01237
[1](#)B. TEL AVIV 01273
[1](#)C. TEL AVIV 01306
[1](#)D. TEL AVIV 01471
[1](#)E. TEL AVIV 01502

Classified By: CDA Luis G. Moreno, reasons 1.4 (b), (d).

[1](#)1. (C) Summary: Deputy Assistant Secretary (DAS) of Treasury for Terrorist Financing and Financial Crimes Danny Glaser met with several GOI officials on July 29-30 to express confidence in the Palestinian financial sector, identify Israeli concerns in Palestinian anti-money laundering/counter financing of terrorism (AML/CFT) procedures, and encourage ongoing Israeli-Palestinian bilateral discussions on AML/CFT. GOI officials praised Palestinian Monetary Authority (PMA) efforts to improve the Palestinian AML/CFT regime, but emphasized that they need more information on how the Palestinian AML regime is being implemented. GOI interlocutors suggested several steps for further solidifying Israeli-Palestinian cooperation on (and GOI confidence in) banking and AML/CFT issues. GOI officials stressed their willingness to work with the Palestinians on these technical issues, and requested U.S. support in encouraging the development of this relationship. Other issues raised by GOI officials included designations of Hamas-affiliated charities and other entities and continued Iranian sanctions. End Summary.

GOI: Progress in the Palestinian Banking System

[1](#)2. (S) GOI officials believe the PMA is making good progress on its AML regime and expressed confidence that the PMA was a willing partner in countering Hamas. They noted that the PMA consistently acts upon information provided about Hamas-related financial activities, and confirmed the view that, as a general matter, the Palestinian financial system is relatively free of Hamas control.

[1](#)3. (S) However, several concerns remain. Israeli officials highlighted a number of flaws in the Palestinian AML/CFT legal framework--chief among these are a failure to criminalize terror finance (TF) and a perceived lack of adequate customer identification rules. Israeli officials also raised questions regarding the overall effectiveness of the Palestinian AML/CFT regime, asserting that more information on implementation of regulations from the PMA would be necessary to gauge progress. Finally, Israeli intelligence officials cited concerns that Hamas accesses the Palestinian financial system in Gaza through Hamas-related charities that have not been designated by the Palestinian Authority or the United States, or through individual bank tellers.

14. (S) DAS Glaser noted that encouraging TF legislation should be a long-term goal for the PA, but identifying and proscribing Hamas charities in Gaza through PA action or U.S. designation might be a more feasible short-term action--especially if there were a means to replace the charities with PA-provided assistance. DAS Glaser encouraged Israeli officials to continue their dialogue with the PMA to gain information needed to resolve outstanding questions. Overall, GOI officials view the Palestinian banking system as stable.

Stanley Fischer Endorses Further Cooperation with the PMA

15. (C) BOI Governor Stanley Fischer discussed the recent solution worked out with the PMA to permit NIS 300 million in excess cash to be transferred out of the West Bank and deposited in Bank Hapoalim's account at the BOI. (Note: Private Israeli banks have been unwilling to receive cash deposits from Palestinian banks in the West Bank for the past year, citing a risk from terrorist financing litigation. End note.) When questioned about his confidence in the PMA and its competence as a regulator, Fischer noted that he is a supporter of the PMA's ability within the GOI, and would appreciate USG reiterating our support of the PMA to other parts of the GOI.

16. (C) GOI officials suggested several other steps forward with Israeli-Palestinian cooperation on banking and AML/CFT, largely within the framework of the ongoing bilateral meetings (REFS A-D). Paul Landes, Legal Counsel to the

TEL AVIV 00001719 002 OF 003

Israel Money Laundering and Terror Financing Prohibition Authority (IMPA) and Dudu Zaken, Assistant Supervisor of Banks, reiterated their desire to see more evidence of Palestinian regulatory implementation. At a July 28 meeting, the GOI received only partial answers (many in Arabic) to the set of technical questions the BOI had posed to the PMA in advance of the meeting. DAS Glaser said that he thought the GOI was asking the right type of questions, especially for longer-term banking and AML/CFT institution building, but noted the importance of achieving results in the short term.

17. (C) Landes emphasized IMPA's wish to meet with its Palestinian counterpart--the Financial Follow-up Unit (FFU). Glaser said that he had discussed this issue with the Palestinians and would continue to press for such a meeting, but encouraged the GOI to seek answers from other parts of the PMA in the meantime. Landes and Zaken suggested a BOI-hosted meeting with the BOI, IMPA, PMA, and FFU, to avoid Palestinian misgivings related to a IMPA-FFU meeting. They suggested U.S. participation in the meetings if bilateral efforts failed.

18. (C) DAS Glaser relayed Palestinian concerns about having their developing FIU meet with IMPA, because IMPA is perceived as too closely tied to the Israeli security establishment. The Palestinians fear that the GOI would try to discuss the broader KPMG mechanism for the control and supervision over the transfer of funds for the rehabilitation of Gaza at any such meeting. Landes responded that IMPA was an administrative FIU and that there is no basis for the Palestinian fear of it being part of the security establishment. Glaser and Landes agreed that if the Palestinian FFU was going to develop as an FIU, it would need to be more willing to meet with other FIUs and exchange information, regardless of where they sit in the government (Note: IMPA falls under the Ministry of Justice, whereas the FFU is part of the PMA. End Note.).

19. (C) Landes also said that he would prefer the meeting to be about technical AML/CFT issues and avoid discussion of more general political issues such as the KPMG mechanism. Glaser suggested that the GOI tell the Palestinians that they

would restrict the conversation to general AML/CFT cooperation and avoid the broader discussion of a mechanism for Gaza assistance. When asked where he saw these meetings leading, Landes said progress through this forum could lead IMPA to recommend increased correspondent banking relations or fund transfers to the Palestinian territories. GOI officials also expressed support for a Middle East/ North Africa Financial Action Task Force (MENA-FATF) and/or IMF mutual evaluation of the Palestinian AML/CFT regime.

PMA Strives to Keep Hamas out of Gaza Banking

¶10. (C) Regarding PMA oversight in Gaza, GOI officials stressed that the PMA or Palestinian banks must be willing and able to keep Hamas out of the formal financial sector. They noted that this conversation should be separate from the mechanism to monitor raw materials and goods. Senior Advisor to the Director of the MOD's Pol-Mil Bureau and acting Coordinator of Government Activities in the Territories (COGAT), Oded Herman said the GOI views these two processes as absolutely separate, and described his own efforts at having different groups of individuals develop the plans for the two separate monitoring frameworks.

¶11. (C) A possible test-case for the PMA and the Palestinian banks' customer due-diligence procedures is in a GOI-proposed plan for distributing social security benefits owed to Gaza residents. In this plan, Gazans would be required to open a personal banking account in the Bank of Palestine, a private, PMA-regulated bank headquartered in Ramallah with branches in Gaza. This could be done in Gaza. When opened, the beneficiary would have to be positively identified, and copies of the identification documents would be sent to the Israeli social security agency for verification. (Note: Landes said that these documents could be passed by the PMA to COGAT, although when EconCouns noted the political sensitivities involved in this, he said that the PMA could pass the documents directly to the social security administration or the BOI. End Note). If the individual already had a bank account, then his or her identity would merely be re-verified. Once the bank account from Gaza was opened and the identity verified by the bank and the social security administration, the monthly payment would be

TEL AVIV 00001719 003 OF 003

authorized to the Ramallah-based bank, and sufficient liquidity would be allowed into the Gaza branches for withdrawal by the individual. The PMA would be required to submit a bi-monthly report to the BOI, describing how the money had been allocated and whether there had been any changes to the status of the individual (for instance, from death).

¶12. (C) GOI interlocutors gave conflicting reports of the progress of this plan. Oded Herman claimed that the plan had been held up by Jihad al-Wazir, head of the PMA, for over two months. On the other hand, Paul Landes said that a draft agreement had been signed by al-Wazir's deputy, Riyadh Abu Shahadeh, and that he expected results within a month's time.

Landes said that while the GOI sees risk in such an agreement, there is broad government approval. Both Herman and Landes view this social security program as an important pilot for PMA oversight of funds into Gaza, and believe--if it is successful--that this would increase GOI comfort in further cooperation with the PA in Gaza.

Designations of Hamas Charities

¶13. (S) GOI intelligence officials reiterated their requests for the U.S. designation of the Union of Good's Lebanese

branch: the Wakfia institution and the International Al Quds
Institution (REF E), as well as the Hamas-run Islamic
National Bank.

Iran Sanctions

¶14. (S) GOI intelligence officials also questioned DAS Glaser
about U.S. plans for applying economic pressure on Iran.
They requested guidance as to where cooperation on
information sharing would be most productive, and sought USG
suggestions on how the GOI should set its collection
priorities on Iranian-related financial targets.

¶15. (U) This cable was cleared by DAS Glaser.

Visit Embassy Tel Aviv's Classified Website:
<http://www.state.sgov.gov/p/nea/telaviv>

MORENO